GERMISTON PHASE II HOUSING COMPANY (SOC) LTD T/A EKURHULENI HOUSING COMPANY

(REGISTRATION NUMBER 2000/007937/07)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2019

General Information

Country of incorporation and domicile	South Africa	
Nature of business and principal activities	Social Housing Institution	
Directors	A Makhado (Non-Executive Director)	Resigned 31 October 2018
	A Pillay (Executive Director)	Resigned 31 October 2018
	B Moholo (Non-Executive Director)	
	D Dlamini (Executive Director)	Resigned 31 December 2018
	D Pertab (Executive Director)	
	F Segole (Non-Executive Director)	Resigned 31 October 2018
	GB Molefe (Executive Director)	
	HT Thopola (Non-Executive Director)	
	K Maithufi (Non-Executive Director)	Resigned 31 December 2018
	L Netshitenzhe (Non-Executive Director)	
	M Ngobeni (Non-Executive Director)	Resigned 31 October 2018
	T Vukea (Non-Executive Director)	
	T Limako (Non-Executive Director)	
	Z Nkamana (Non-Executive Director)	
Registered office	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale	
Business address	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale	
Postal address	P O Box 1245 Germiston 1400	
Controlling municipality	City of Ekurhuleni incorporated in South Africa	
Bankers	ABSA Bank Limited Corporate and Investment Banking	
Auditors	Auditor - General South Africa 61 Central Street Houghton	
Company Secretary	Adv Kgabo Sebola	
Company registration number	2000/007937/07	
Preparer	The annual financial statements were prepared under the supervision of: D Pertab CA(SA) Chief Financial Officer	

Contents

The reports and statements set out below comprise the annual financial statements presented to the AGSA:

AGSA	Auditor General South Africa
EDC	Ekurhuleni Development Company (SOC) Ltd
EHC	Ekurhuleni Housing Company
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
CoE	City of Ekurhuleni
MPAC	Municipal Public Accounts Committee
Pharoe Park	Pharoe Park Housing Company (SOC) Ltd
SARS	South African Revenue Services
SHRA	Social Housing Regulatory Authority
SOC	State owned Company
ITC	Credit bureau
SCM	Supply Chain Management

Directors' Responsibilities and Approval

The directors are required by the Municipal Finance Management Act, No. 56 of 2003, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of EHC as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across EHC. While operating risk cannot be fully eliminated, EHC endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed EHC's cash forecast for the year to 30 June, 2020 and, in the light of this review and the current financial position, they are satisfied that EHC has or has access to adequate resources to continue in operational existence for the foreseeable future.

EHC is wholly dependent on the City of Ekurhuleni for continued funding of operations. The annual financial statements are prepared on the basis that EHC is a going concern and that the City of Ekurhuleni has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The annual financial statements set out on pages 8 to 48, which have been prepared on the going concern basis, were approved by the Board of Directors on 31 August, 2019 and were signed on its behalf by:

B Moholo (Non-Executive Director) **Chairperson-Board of Directors**	**GB Molefe (Executive Director)** **Chief Executive Officer**

31 August, 2019

Directors' Report

The directors submit their report for the year ended 30 June, 2019.

1. Incorporation

The entity was incorporated in the Republic of South Africa on April 26, 2000 and obtained its certificate to commence business.

2. Review of activities

Main business and operations

The entity's main business is property development and the management of social and rental housing stock.
The entity is engaged in social housing institution activities and operates as municipal entity under the laws of South Africa.

3. Going concern

The annual financial statements are prepared on the going concern basis. The Board of Director therefore foresees that the entity will continue as a going concern. The continued existence of the entity is dependent on the financial support of its shareholder.

The shareholder approved grants of R82 400 000 to the entity for the 2018/19 financial year. A grant of R55 440 000 has been approved for the 2019/20 financial year.

At 30 June, 2019, the entity had an accumulated surplus of R 167,173,040 and the entity's total assets exceeded its liabilities by R 167,173,140.

Based on the above support and accumulated surplus, the Board of Directors is of the view that the entity will continue as a going concern.

4. Subsequent events

The Board of Directors are not aware of any events that occurred between the reporting date and the date the financial statements were authorised for issue that requires adjustments to or disclosure in the financial statements.

5. Accounting policies

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP).

6. Contributions from owners

There were no changes in the authorised or issued share capital of the entity during the period under review.

The entity was established with an authorised share capital of 1,000 ordinary shares of R1 each of which 100 were issued at par value.

7. Non-current assets

There were no material changes in the nature of the non-current assets of the entity, nor to its policy regarding their use during the year under review.

Directors' Report

8. Directors

The directors of the entity during the year and to the date of this report are as follows:

Name	Nationality	Date appointed
A Makhado (Non-Executive Director)	South African	01 July 2015 (Resigned 31 October 2018)
A Pillay (Executive Director)	South African	01 November 2015 (Resigned 31 October 2018)
B Moholo (Non-Executive Director)	South African	01 November 2018
D Dlamini (Executive Director)	South African	01 July 2015 (Resigned 31 December 2018)
D Pertab (Executive Director)	South African	01 May 2019
F Segole (Non-Executive Director)	South African	01 May 2015 (Resigned 31 October 2018)
GB Molefe (Executive Director)	South African	01 March 2019
HT Thopola (Non-Executive Director)	South African	01 November 2018
K Maithufi (Non-Executive Director)	South African	01 October 2014 (Resigned 31 October 2018)
L Netshitenzhe (Non-Executive Director)	South African	01 November 2018
M Ngobeni (Non-Executive Director)	South African	01 July 2015 (Resigned 31 October 2018)
T Vukea (Non-Executive Director)	South African	01 November 2018
T Limako (Non-Executive Director)	South African	01 November 2018
Z Nkamana (Non-Executive Director)	South African	01 November 2018

9. Company Secretary

The company secretary of the entity is Adv Kgabo Sebola of:

Business address	Hanover building Cnr Hendrik Potgieter & 7th Avenue Edenvale 1400
Postal address	P O Box 1245 Germiston 1400

10. Corporate governance

General

The entity is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the entity supports the highest standards of corporate governance and the ongoing development of best practice.

The entity confirms and acknowledges its responsibility to adopt Code of Corporate Practices and Conduct ("the Code") laid out in the King IV report on Corporate Governance for South Africa. The Board of Directors reviews management reports at board meetings on a quarterly basis.

The salient features of the entity's adoption of the Code is outlined below:

Board of directors

The Board:

- ensures that the entity complies with its mandate and responsibilities including, its plans and strategy;
- acknowledges its responsibility towards strategic development, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising 6 non-executive independent directors and 2 executive directors.

Directors' Report

Chairperson and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The remuneration of the Executive Directors and Non-Executive Directors' fees are determined by the shareholder. The remuneration of key management and directors's fees are disclosed in a note of the annual financial statements.

Board meetings

The board had 4 ordinary board meetings and 3 special board meetings during the year under review. The board schedules to meet at least 4 times per annum.

Non-executive directors have access to all members of senior management of the entity.

Audit committee

The entity does not have its own audit committee. At present the audit committee of the City of Ekurhuleni provides an audit committee function to the entity as per council resolution. This is in compliance with section 166 (6) b of the Municipal Finance Management Act, 2003.

Internal audit

The internal audit department of City of Ekurhuleni provided the internal audit function to the entity. This is in compliance with the Municipal Finance Management Act, 2003.

11. Controlling municipality

The entity's controlling municipality is the City of Ekurhuleni incorporated in South Africa.

12. Bankers

ABSA Bank Limited.

13. Auditors

Auditor - General South Africa.

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the entity has lodged with the Commissioner all such returns and notices as are required of a public company in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Adv Kgabo Sebola
Company Secretary

Johannesburg
31 August, 2019

Statement of Financial Position as at 30 June, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Loans to/(from) related parties	3	336,000	420,000
Receivables from exchange transactions	4	4,741,556	1,523,517
VAT receivable		35,608	812,724
Consumer debtors	5	7,620,115	1,628,487
Cash and cash equivalents	6	43,538,005	35,540,172
		56,271,284	**39,924,900**
Non-Current Assets			
Investment property	7	191,002,295	195,469,227
Property, plant and equipment	8	3,228,127	3,135,249
Intangible assets	9	9,725	41,038
		194,240,147	**198,645,514**
Total Assets		**250,511,431**	**238,570,414**
Liabilities			
Current Liabilities			
Current tax payable	10	5,002,730	36,968,047
Deferred operating lease	11	13,329	68,991
Trade and other payables from exchange transactions	12	8,666,260	5,086,340
Provisions	13	1,898,885	2,994,272
Tenants Deposits	14	5,241,915	5,000,910
		20,823,119	**50,118,560**
Non-Current Liabilities			
Unspent conditional grants and receipts	15	20,862,707	20,862,707
Deferred tax	16	41,652,465	42,886,562
		62,515,172	**63,749,269**
Total Liabilities		**83,338,291**	**113,867,829**
Net Assets		**167,173,140**	**124,702,585**
Contributions from owners	17	100	100
Accumulated surplus		167,173,040	124,702,485
Total Net Assets		**167,173,140**	**124,702,585**

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Rental from investment properties		40,415,154	35,286,029
Retail rent		54,505	45,418
Recoveries	19	5,662,454	4,940,990
Other income	20	6,837,254	91,390
Interest received	21	3,005,792	3,363,127
Total revenue from exchange transactions		**55,975,159**	**43,726,954**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies		70,244,808	100,913,987
Total revenue	18	**126,219,967**	**144,640,941**
Expenditure			
Employee related costs	22	(21,186,129)	(21,449,189)
Non-Executive Directors' fees	22	(3,275,016)	(2,910,000)
Depreciation and amortisation	7,8,9	(5,389,264)	(4,927,961)
Finance costs,SARS interest and penalties	23	(358,214)	(3,268,264)
Lease rentals on operating lease		(622,106)	(632,477)
Impairment of Consumer Debtors	24	(10,081,910)	(6,254,800)
Repairs and maintenance	25	(5,618,616)	(4,387,469)
Loss on scrapped assets		(355,386)	(31,996)
General Expenses	26	(22,684,667)	(24,586,982)
Total expenditure		**(69,571,308)**	**(68,449,138)**
Surplus before taxation		**56,648,659**	**76,191,803**
Taxation	27	14,178,103	38,859,007
Surplus for the year		**42,470,556**	**37,332,796**
Attributable to:			
Owners of the controlling entity		42,470,556	37,332,796
		42,470,556	**37,332,796**

Statement of Changes in Net Assets

Figures in Rand	Contributions from owners	Accumulated surplus	Total net assets
Opening balance as previously reported	100	83,208,746	83,208,846
Adjustments			
Correction of errors	-	4,160,943	4,160,943
Balance at 1 July, 2017 as restated*	**100**	**87,369,689**	**87,369,789**
Changes in net assets			
Surplus (Deficit) for the period	-	37,332,796	37,332,796
Total changes	-	37,332,796	37,332,796
Opening balance as previously reported	100	123,926,183	123,926,283
Adjustments			
Correction of errors	-	776,301	776,301
Restated* Balance at 1 July, 2018	**100**	**124,702,484**	**124,702,584**
Changes in net assets			
Surplus (Deficit) for the period	-	42,470,556	42,470,556
Total changes	-	42,470,556	42,470,556
Balance at 30 June, 2019	**100**	**167,173,040**	**167,173,140**
Note	17		

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
SARS tax refund		-	15,325,141
Customers		25,119,196	28,336,025
Grants		67,083,809	42,008,610
Interest income		3,005,792	3,363,127
Other receipts		5,847,602	5,032,381
		101,056,399	94,065,284
Payments			
Employee related costs		(25,583,047)	(24,328,503)
Suppliers		(25,482,761)	(29,676,033)
Finance costs, SARS interest and penalties		(790,864)	(206)
Taxation paid	28	(40,103,614)	(23,618,313)
		(91,960,286)	(77,623,055)
Net cash flows from operating activities	29	**9,096,113**	**16,442,229**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(1,339,282)	(1,367,970)
Proceeds from sale of property, plant and equipment	8	-	85,595
Purchase of investment property	7	-	(831,152)
Net cash flows from investing activities		**(1,339,282)**	**(2,113,527)**
Cash flows from financing activities			
Receipts/(repayment) of deposits charged		241,002	742,718
Net increase/(decrease) in cash and cash equivalents		**7,997,833**	**15,071,420**
Cash and cash equivalents at the beginning of the year		35,540,172	20,468,752
Cash and cash equivalents at the end of the year	6	**43,538,005**	**35,540,172**

Statement of Comparison of Budget and Actuals

Figures in Rand	Original budget: Refer to note 36	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
30 June 2019											
Financial Performance											
Interest received	1,923,765	-	1,923,765	-		1,923,765	3,005,792		1,082,027	156 %	156 %
Transfers recognised - operational	82,400,000	-	82,400,000	-		82,400,000	70,244,808		(12,155,192)	85 %	85 %
Other own revenue	52,344,573	4,045,515	56,390,088	-		56,390,088	52,969,367		(3,420,721)	94 %	101 %
Total revenue (excluding capital transfers and contributions)	**136,668,338**	**4,045,515**	**140,713,853**	**-**		**140,713,853**	**126,219,967**		**(14,493,886)**	**90 %**	**92 %**
Employee costs	(23,248,812)	-	(23,248,812)	-	-	(23,248,812)	(21,186,129)	-	2,062,683	91 %	91 %
Non-Executive Directors' fees	(3,081,600)	-	(3,081,600)	-	-	(3,081,600)	(3,275,016)	-	(193,416)	106 %	106 %
Debt impairment	(6,598,815)	-	(6,598,815)			(6,598,815)	(10,081,910)	-	(3,483,095)	153 %	153 %
Depreciation and amortisation	(4,571,000)	-	(4,571,000)			(4,571,000)	(5,389,264)	-	(818,264)	118 %	118 %
Finance charges	(28,620)	-	(28,620)	-	-	(28,620)	(358,214)	-	(329,594)	1,252 %	1,252 %
Other expenditure	(30,601,908)	(4,045,515)	(34,647,423)	-	-	(34,647,423)	(29,280,775)	-	5,366,648	85 %	96 %
Total expenditure	**(68,130,755)**	**(4,045,515)**	**(72,176,270)**	**-**	**-**	**(72,176,270)**	**(69,571,308)**	**-**	**2,604,962**	**96 %**	**102 %**
Surplus/(Deficit)	**68,537,583**	**-**	**68,537,583**	**-**		**68,537,583**	**56,648,659**		**(11,888,924)**	**83 %**	**83 %**
Taxation	59,988,583	-	59,988,583	-		59,988,583	14,178,103		(45,810,480)	24 %	24 %
Surplus/(Deficit) for the year	**8,549,000**	**-**	**8,549,000**	**-**		**8,549,000**	**42,470,556**		**33,921,556**	**497 %**	**497 %**

Statement of Comparison of Budget and Actuals

Comments

Comments to the Statement of Comparison of Budget and Actuals (Statement of Financial Performance)

1. Revenue

Interest received

Interest received is comprised of interest generated from investments and bank accounts of R1, 7 million and interest on overdue tenant’s accounts of R 1, 3 million. The interest on overdue tenant’s accounts exceeded the budget by R1 million, due to ineffective credit control.

Transfers recognised-operational grant

A grant of R12 million was not claimed from the approved budget as the related projects were not achieved as detailed below:

- R 4.3 million relating to the refurbishment of Pharoe Park- the project could not be procured within the timeframe;
- R 1 million for CoE stock transfer - bids received exceeded the grant amount rendering the project impractical, and
- R 6,7 million for taxation - actual income tax for the period was lower than the budget.

Other own revenue

The variance of R4, 4 million due to low recovery on rental charges reduced by a tax refunds received from SARS. The income from Chris Hani Phase II was anticipated to be realised during the year, however this was not achieved as the property was not yet transferred to the entity. The refund of R5.7 million from SARS relates to interest and penalties recovered.

2. Employee costs

The variance of R2 million is mainly due to a provision relating to the performance bonus for the 2018 financial year that was released against the expenditure line item in the current year. No provision for performance bonus was raised for the current year.

3. Non-Executive Directors' fees

Expenditure for Non-Executive Directors' fees exceeds the budget by 6%. The fees were adjusted during the year to align to the rates approved by the CoE. The new rates were effective from 01 December 2018. The budget was based on a fixed monthly retainer, while the actual expenditure calculated on the new rates was paid per meeting attended.

4. Debt impairment

The variance of R3.5 million is mainly due to a rapid increase in the debtor's book as a result of ineffective credit control.

5. Depreciation and amortisation

Depreciation and amortisation expenditure is more than budget by 18%. This is mainly due to depreciation on buildings, which was inadequately provided for in the budget.

5. Finance Costs

Finance costs in the budget was under provided. Interest on tenants deposits amounted to R189 145. Interest to SARS exceeded provision by R169 000.

6. Other expenditure

Maintenance and repairs budget was underspent by R1,9 million due to delayed appointments for projects approved pending adjustment budget approval.

Statement of Comparison of Budget and Actuals

Consultants and professional fees budget was underspent by R1.3 million, which mainly due to the budget for organisational review not spent as at 30 June. Legal costs for litigation and debt collection was not spent due to late appointment of a panel of legal professionals. Several other expenditure items underspent by a total of R1, 8 million this relates significantly to staff recruitment, advertising and training.

7. Taxation

The actual tax expense is lower than budgeted. This is due to the building for Phase II of Chris Hani project not being transferred to EHC in the current financial year.

Accounting Policies

1. Presentation of Annual Financial Statements

Basis of Preparation

The annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, No. 56 of 2003.

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Significant judgements and sources of estimation uncertainty

In the process of applying the entity's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively:

• **Impairment of financial assets at amortised costs**

The entity assesses its financial assets at amortised cost for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for financial assets at amortised cost is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. All debtors of significant balances are tested for impairment on an individual basis by an age analysis of the outstanding balance and evaluation thereof through application of company approved policies and known factors that could influence outstanding balances.

• **Impairment of consumer debtors**

The calculation in respect of the impairment of consumer debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. This was performed per service-identifiable categories across all debtor classes. Accordingly, no further credit provisions are required in excess of the present allowance for doubtful debts.

• **Impairment of property, plant and equipment**

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

• **Provisions, contingent liabilities and contingent assets**

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets.

Accounting Policies

Provisions are discounted where the effect of discounting is material, using the cost of capital.

• Useful lives of property, plant and equipment and Investment property held at cost

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate.

The estimated residual values of assets are based on management's judgement on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

• **Budget information**

A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

1.2 Presentation currency

The annual financial statements are presented in South African Rand, which is the functional currency of the entity. Amounts in the financial statements are rounded to the nearest South African Rand.

1.3 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is for social housing initiatives and is assessed as a non-cash generating asset.

At initial recognition, the entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Estimated useful life (range in years)
Property - land	indefinite
Property - buildings	32-50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Accounting Policies

1.3 Investment property (continued)

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less any accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The depreciation rates are based on the following estimated useful lives:

Item	**Estimated useful life (range in years)**
•Furniture and Office Equipment	3-21 years
• Motor vehicles	14 years
• IT equipment	2-16 years
• Other Equipment	4-12 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

1.4 Property, plant and equipment (continued)

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (refer to note 25).

1.5 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the Entity, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Accounting Policies

1.5 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not capitalised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Estimated useful life (range in years)
Computer software, other	2-15 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with the Standards of GRAP 104 the Financial Assets of the City are classified as follows into the three categories allowed by this standard:

- Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current asset

- Financial assets measured at fair value being financial assets that meet either of the following conditions:

a) Derivatives;

b) Combined instruments that are designated at fair value;

c) Instruments held for trading;

d) Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or

e) Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost being investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost

1.6 Financial instruments (continued)

Cash and cash equivalents	Financial asset measured at amortised cost
Other Investments	Financial asset measured at cost

Financial Liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of Financial Liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at fair value; or
- Financial liabilities measured at amortised cost.

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loans	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Tenants' deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly. The amount of the loss is recognised in surplus or deficit.

Accounting Policies

1.6 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in the statement of financial performance.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Entity. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

1.7 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Accounting Policies

1.9 Impairment of non-cash-generating assets (continued)

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Revenue from exchange transactions

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

1.10 Revenue from exchange transactions (continued)

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

1.11 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Accounting Policies

1.11 Revenue from non-exchange transactions (continued)

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers, including Grants and Receipts

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind that are significant to the entity's operations and/or service delivery objectives are recognised as assets. The related revenue is recognised when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the entity’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity shall disclose the nature and type of services in-kind received during the reporting period.

1.12 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the period from 2018/07/01 to 2019/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.15 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Accounting Policies

1.15 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

1.16 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

• those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

• those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

1.17 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandibility and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Accounting Policies

1.18 Taxes

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

Figures in Rand	2019	2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 July, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date has yet been determined by the Minister of Finance	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	1 April, 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	1 April, 2019	No impact
• GRAP 20: Related parties	1 April, 2019	No impact
• GRAP 108: Statutory Receivables	1 April, 2019	No impact
• GRAP 109: Accounting by Principals and Agents	1 April, 2019	No impact
• IGRAP 11: Consolidation – Special purpose entities	1 April, 2019	No impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	1 April, 2019	No impact

3. Loans to/(from) related entities

Related entities

Lethabong Housing Company (SOC) Limited	336,000	420,000

Inter-company loans are unsecured, interest free with no specific repayment terms. The recovery of R336 000 will be realised upon the distribution of Lethabong Housing Company (SOC) Limited liquidation dividend.

Loan to related entity impaired

As at 30 June 2019, loans to related entity were impaired by R84 000 based on the recoverability assessment provided by the liquidators.

4. Receivables from exchange transactions

Deposits	404,809	404,809
Staff Debtors	18,780	47,624
Related party receivables-City of Ekurhuleni	771,158	92,673
Other receivables	3,412,343	596,873
Prepaid expenses	134,466	381,538
	4,741,556	**1,523,517**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Receivables from exchange transactions (continued)

Other receivables past due but not impaired

Other receivables which are less than 3 months past due are not considered to be impaired.

The ageing of these receivables is as follows:

1 month past due	5,197	381,538
2 months past due	-	596,873
3 months past due	-	545,105

5. Consumer debtors

Gross balances		
Housing rental	23,970,753	13,383,830
Less: Allowance for impairment		
Housing rental	(16,350,638)	(11,755,343)
Net balance		
Housing rental	7,620,115	1,628,487
Housing rental		
Current (0 -30 days)	3,216,081	1,764,485
31 - 60 days	2,571,524	1,362,599
61 - 90 days	2,171,623	1,187,634
91 - 120 days	1,903,883	912,784
121 - 365 days	14,107,642	8,156,328
	23,970,753	**13,383,830**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(11,755,343)	(9,907,007)
Contributions to allowance	(10,081,910)	(6,254,800)
Debt impairment written off against allowance	5,486,615	4,406,464
	(16,350,638)	**(11,755,343)**

Consumer debtor's collateral

Tenants deposits held as collateral on amounts owing is R 5,241,915 - (30 June 2018: R 5,000,910).

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June, 2019, R 7,959,228 (30 June 2018: R 4,314,718) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,216,081	1,764,485
2 months past due	2,571,524	1,362,599
3 months past due	2,171,623	1,187,634

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,018	198
Short-term tenant deposits	3,700,226	3,550,233
Unspent grant - Restricted cash	17,850,927	14,103,480
Bank balances	21,985,834	17,886,261
	43,538,005	**35,540,172**

The entity had the following bank accounts

Account number / description

ABSA Current account - 4052348660	15,243,343	8,899,506
ABSA Call account - 4078340070	2,208,784	2,119,248
ABSA Fixed deposit account - 80809458	-	5,059,622
ABSA-current account-4055919492	637,090	487,202
ABSA- current account-4050383636	6,105,401	8,499,553
ABSA call account- 4078340151	1,491,442	1,430,985
Call 32 Day 676886622010	17,850,927	9,043,858
	43,536,987	**35,539,974**

Cash and cash equivalents earn interest at fixed rates.

Notes to the Annual Financial Statements

Figures in Rand

7. Investment property

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	217,061,058	(26,058,763)	191,002,295	217,061,058	(21,591,831)	195,469,227

Reconciliation of investment property -30 June 2019

	Opening balance	Depreciation	Total
Investment property	195,469,227	(4,466,932)	191,002,295

Reconciliation of investment property - 30 June 2018

	Opening balance	Additions	Depreciation	Total
Investment property	131,622,028	67,915,880	(4,068,681)	195,469,227

The entity is restricted in terms of section 24 (b) of the MFMA Asset Transfer Regulations, which states that an organ of state may not without the written approval of the parent municipality transfer exempted capital asset to another person, dispose or grant a right to another person to use, control or manage the capital asset or encumber the capital asset in any way.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. Investment property (continued)

Details of property

The investment property comprises of:

Erf 59, 61 and 62 Airport Park Ext 2 Township registration division I.R. measuring 1.3394, 1.1486 and 1.5477 hectares respectively, erf 905, 906, 907 and 908 Delville Ext 3 Township measuring 4708, 4212, 4400 and 2007 square meters, as well as R/71/110-IR Germiston, and Portion 71 (remaining extent) of the farm Klippoortjie 110-IR, Germiston. The property was developed in 2002. It has 548 social housing rental units.

Erf 122 to 128,130,132,134 to 139,263,265,267,269 to 271,287 and 305 to 308 in WEST GERMISTON was developed in 1998. The property has 440 social housing rental units. The properties were registered in the name of Germiston Phase II Housing Company in January 2017.

Erf 808 Germiston-Chris Hani property. The company took control of the property during April 2017. The property is in the proccess of being registered in the name of Germiston Phase II Housing Company.

Erf 948 Delville Ext 9 property. The company took control of the property in October 2017.

Investment properties were developed for the purpose of earning rental income and meeting housing service delivery needs.

Investment properties registered in the name of Germiston Phase II Housing Company (SOC) Ltd were valued in June 2018 at fair value of R328 650 000. The amount excludes the new buildings of Delville Ext 9, which can be valued at cost of R 67 084 729.

Details of property

	2019	2018
Investment property at cost- Airport Park and Delvile		
- Land	1,484,465	1,484,465
- Buildings	29,070,639	29,070,639
- Capitalised expenditure	134,833	134,833
	30,689,937	**30,689,937**
Investment property at cost- Pharoe Park		
- Land	1,995,063	1,995,063
- Buildings	9,848,291	9,848,291
- Capitalised expenditure	28,869,635	28,869,635
	40,712,989	**40,712,989**
Investment Property at cost-Chris Hani Village		
- Land	137,975	137,975
- Buildings	78,233,893	78,233,893
	78,371,868	**78,371,868**
Investment Property at cost- Delville Ext 9		
- Land	201,535	201,535
- Buildings	67,084,729	67,084,729
	67,286,264	**67,286,264**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and Fittings	870,747	(372,618)	498,129	844,434	(321,737)	522,697
Motor vehicles	114,958	(114,957)	1	114,958	(69,889)	45,069
Office equipment	541,554	(225,943)	315,611	392,187	(182,207)	209,980
IT equipment	1,439,686	(638,722)	800,964	1,371,371	(490,640)	880,731
Other equipment	2,543,389	(929,967)	1,613,422	2,096,646	(619,874)	1,476,772
Total	**5,510,334**	**(2,282,207)**	**3,228,127**	**4,819,596**	**(1,684,347)**	**3,135,249**

Reconciliation of property, plant and equipment - 30 June 2019

	Opening balance	Additions	Assets scrapped	Depreciation	Total
Furniture and Fittings	522,697	78,795	(26,554)	(76,809)	498,129
Motor vehicles	45,069	-	-	(45,068)	1
Office equipment	209,980	181,764	(15,673)	(60,460)	315,611
IT equipment	880,731	285,124	(79,663)	(285,228)	800,964
Other equipment	1,476,772	793,600	(233,496)	(423,454)	1,613,422
	3,135,249	**1,339,283**	**(355,386)**	**(891,019)**	**3,228,127**

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Assets scrapped	Depreciation	Total
Furniture and Fittings	466,385	130,804	(659)	(73,833)	522,697
Motor vehicles	125,000	-	(71,651)	(8,280)	45,069
Office equipment	113,320	138,476	(836)	(40,980)	209,980
IT equipment	676,528	458,029	(25,404)	(228,422)	880,731
Other equipment	1,165,353	640,661	(9,929)	(319,313)	1,476,772
	2,546,586	**1,367,970**	**(108,479)**	**(670,828)**	**3,135,249**

Other equipment consists mainly of security related assets.

Fully depreciated assets will be replaced as they become obsolete.

There were no impairment of property, plant and equipment during the period under review (30 June 2018-R0)

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	333,503	(323,778)	9,725	333,503	(292,465)	41,038

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Intangible assets (continued)

Reconciliation of intangible assets - 30 June 2019

	Opening balance	Amortisation	Total
Computer software	41,038	(31,313)	9,725

Reconciliation of intangible assets - 30 June 2018

	Opening balance	Disposals	Amortisation	Total
Computer software	238,603	(9,113)	(188,452)	41,038

10. Current tax payable

	2019	2018
Opening balance	(36,968,047)	(19,019,771)
Prior year provisional tax refund receivable	1,520,408	-
Transfer of functions in - Tax receivable Ekurhuleni Development Housing Company (SOC) Ltd	-	20,612
Prior year interest receivable on amounts due by SARS	121,823	-
Current year tax payable	(18,458)	(23,101,308)
Current year interest and penalties payable	-	(3,160,750)
Current year penalty waived receivable	773,837	-
Previous year tax paid in current year	23,101,308	19,368,002
Previous year interests and penalties	4,004,227	4,250,309
Tax (received)/ receivable: Pharoe Park Housing Company (SOC)Ltd	-	(14,680,102)
Previous year penalties overprovided, recovered in current year	2,462,172	-
Tax (received)/ receivable: Ekurhuleni Development Company (SOC) Ltd	-	(645,039)
	(5,002,730)	**(36,968,047)**

TAX RATE RECONCILIATION	30 June 2019	%	30 June 2018	%
(Loss)/Profit before tax	56,648,659		76,191,803	
Tax on profit before tax at standard rate	15,861,625	28	21,333,705	28
Permanent differences: tax receivables	-	-	(20,612)	-
SARS penalties and interest paid	4,749	-	885,010	1
SARS penalties and interest reversals	(1,741,439)	(3)	-	-
Temporary differences: Investment property and PPE	53,168	-	16,660,904	22
	14,178,103	**25**	**38,859,007**	**51**

11. Deferred operating lease

	2019	2018
Office building: Leased	13,329	68,991

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Deferred operating lease (continued)

Operating Lease- Building 30 June 2019	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	721,031	1,046,552	-	1,767,583

Operating Lease- Building 30 June 2018	not later than one year	later than one year and not later than five years	later than five years	Total
Future minimum lease payments	618,168	2,435,205	-	3,053,373

Operating lease is in respect of leased office building. The lease period is five (5) years with the annual escalation of 8%. The lease payments include rental and parking.

12. Trade and other payables from exchange transactions

	2019	2018
Trade payables	856,062	621,037
Payroll creditors	76,776	230,170
Accrued 13th cheque bonus	749,740	615,147
Accrued expense-Suppliers	5,067,759	1,222,993
Other payables	267,085	37,015
Unallocated receipts	111,216	102,134
Advance payments-consumer debtors	1,537,622	2,257,844
	8,666,260	**5,086,340**

Trade and other payables are interest bearing and are normally settled on 30 - 90 day terms. All other payables are non-interest bearing and have an average term of three months.

Other payables have now been split to separately disclose the advance payments for consumer debtors.

13. Provisions

Reconciliation of provisions - 30 June 2019

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave Pay Provision	1,099,558	659,939	(645,503)	-	1,113,994
Performance Bonus Provision	1,270,930	-	-	(1,270,930)	-
Provision for interest on tenant's deposits	623,784	189,145	(28,038)	-	784,891
	2,994,272	**849,084**	**(673,541)**	**(1,270,930)**	**1,898,885**

Reconciliation of provisions - 30 June 2018

	Opening Balance	Additions	Utilised during the year	Total
Leave Pay Provision	1,365,785	92,864	(359,091)	1,099,558
Performance Bonus Provision	1,145,514	992,669	(867,253)	1,270,930
Provision for interest on tenant's deposits	535,644	107,308	(19,168)	623,784
	3,046,943	**1,192,841**	**(1,245,512)**	**2,994,272**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

13. Provisions (continued)

The provision represents management's best estimate of the entity's liability. Interest accrued on tenants' deposit from the lease date to the date of vacating the unit.

A provision for leave is recognised for leave due to employees at year end. The provision for leave is calculated by multiplying the number of leave days due to each employee by a daily rate based on the basic salary. The provision is expected to be realised within the following financial year when employees request leave to be paid out or taken.

14. Tenants deposits

Deposits charged	5,241,915	5,000,910

The tenants' deposits consist of two months rental paid by the tenants at the inception of the rental lease. The deposits are held in an interest bearing account and 2.5% interest on deposit held is allocated to tenants on termination of lease. The deposit and related interest is offset against any cost of damages to rental units and the rental amounts due on termination of lease.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grant	20,862,707	20,862,707

Movement during the year

Opening balance	20,862,707	12,683,355
SHRA capital restructuring grant received during the year	-	8,179,352
	20,862,707	**20,862,707**

The unspent grant is allocated from Gauteng Partnership Fund and Social Housing Regulatory Authority for social housing projects.

The grant is earmarked to be spend on Social Housing projects.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Deferred tax

Deferred tax liability

Opening balance	(42,886,561)	(27,108,251)
Deferred tax from origination of temporary differences	-	(18,512,003)
Deferred tax movement from reversals of temporary differences	1,234,096	2,733,693
Total deferred tax (liability)/asset	**(41,652,465)**	**(42,886,561)**

Reconciliation of deferred tax liability.

At beginning of year	(42,886,562)	(27,108,251)
Leave Provision	4,042	(74,543)
Performance bonus	(355,860)	35,116
Investment property-Building: Pharoe Park	108,686	108,462
Investment property-Building: Germiston Phase II	(352,382)	1,755,195
Investment Property - Buildings: Chris Hani	438,436	438,110
Property plant and equipment	65,870	80,299
Investment property-Building: Delville Ext 9	375,878	(18,512,003)
Operating lease liability	(15,586)	2,904
Provision for bad debts	965,013	388,149
	(41,652,465)	**(42,886,562)**

Recognition of deferred tax liability

The entity has a net deferred tax liability.

The company has raised the deferred tax liability. The entity will have sufficient future income to pay the deferred tax liability.

This assumption is supported by the consolidation of EDC and Pharoe Park's assets into Germiston Phase II Housing Company, which resulted in an increase of the company's solvency and sustainability. In addition to the support given by the shareholder to effect the consolidation, the shareholder also indicated its continued support to grow the company with new building projects that have been undertaken on behalf of the entity and will be transferred to the entity upon completion.

17. Contributions from owners

Authorised		
1000 Ordinary shares of par value of R1 each	1,000	1,000
Issued		
100 Ordinary Shares Issued to Ekurhuleni Metropolitan Municipality	100	100

The Ekurhuleni Metropolitan Municipality now owns 100% of the entity's shares.

18. Revenue

Rental from investment properties	40,415,154	35,286,029
Rental from retail property	54,505	45,418
Recoveries	5,662,454	4,940,990
Other income	6,837,254	91,390
Interest received	3,005,792	3,363,127
Government grants & subsidies	70,244,808	100,913,987
	126,219,967	**144,640,941**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

18. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rental from investment properties	40,415,154	35,286,029
Rental from retail property	54,505	45,418
Recoveries	5,662,454	4,940,990
Other income	6,837,254	91,390
Interest received	3,005,792	3,363,127
	55,975,159	**43,726,954**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies- City of Ekurhuleni	70,244,808	100,913,987

19. Recoveries

Refuse	1,694,188	1,475,033
Damage and repairs	74,243	45,859
Sewerage	1,257,074	1,090,465
Water	2,636,949	2,329,633
	5,662,454	**4,940,990**

20. Other income

Lease administration fees	25,585	19,530
Letters of demand charged	81,955	39,886
Tender administration fees	77,609	31,974
SARS Penalties refunded	6,652,105	-
	6,837,254	**91,390**

21. Interest received

Bank	1,694,982	2,174,760
Interest charged on overdue Accounts-Tenants	1,310,810	1,188,367
	3,005,792	**3,363,127**

The amount included in Investment revenue arising from exchange transactions amounted to R 1,694,982 (30 June 2018: R2,174,760).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Employee related costs

Basic	17,466,398	16,357,953
Performance bonus	(1,270,930)	992,668
Medical aid - company contributions	1,010,229	923,684
UIF	57,896	56,777
SDL	224,718	217,301
Leave pay provision charge	659,938	92,864
Provident fund	1,458,669	1,410,522
Cellphone allowance	136,300	164,400
Overtime payments	290,103	237,088
13th Cheques	920,908	777,172
Travel allowance	231,900	218,760
	21,186,129	**21,449,189**

REMUNERATION OF CHIEF EXECUTIVE OFFICER

Basic	1,448,381	2,320,826
Performance Bonus	-	256,215
Contribution to UIF, Medical and Pension Fund	157,644	241,055
Leave pay	63,856	-
Other	4,600	13,800
	1,674,481	**2,831,896**

REMUNERATION OF CHIEF FINANCIAL OFFICER

Basic	1,191,901	1,799,972
Travel Allowance	60,000	120,000
Performance Bonuses	-	177,752
Contributions to UIF, Medical and Pension Funds	131,216	206,356
Leave paid out	359,918	-
Acting Allowance	-	55,518
Other	6,900	13,800
	1,749,935	**2,373,398**

REMUNERATION OF COMPANY SECRETARY

Basic	1,033,296	969,222
Performance Bonuses	-	90,154
Contributions to UIF, Medical and Pension Funds	114,228	103,017
Leave pay	-	25,017
Other	13,800	13,800
	1,161,324	**1,201,210**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Employee related costs (continued)

NON-EXECUTIVE DIRECTORS' FEES

L Vutula	-	390,000
F Segole	141,376	360,000
K Maithufi	120,000	360,000
L Netshitenzhe	504,768	360,000
M Ngobeni	120,000	360,000
TA Limako	485,024	360,000
A Makhado	120,000	360,000
Z Nkamana	591,848	360,000
B Moholo	358,336	-
HT Thopolo	406,144	-
R Vukea	427,520	-
	3,275,016	**2,910,000**

The basis of remuneration of non-executive directors was aligned to the remuneration rates approved by the CoE effective from 01 December 2018.

23. Finance costs, SARS interest and penalties

Trade and other payables	-	206
SARS- interest and penalties	169,068	3,160,750
Interest paid on tenant's deposits	189,146	107,308
	358,214	**3,268,264**

24. Impairment-Consumer Debtors

Contributions to debt impairment provision	4,595,295	1,848,336
Bad debts written off - Consumer debtors	5,486,615	4,406,464
	10,081,910	**6,254,800**

25. Repairs and maintenance

Contractors		
Maintenance of Buildings and Facilities	5,618,616	4,387,469

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. General expenses

Advertising	65,870	187,578
Assessment rates & municipal charges	630,637	594,039
Auditors remuneration	790,786	857,086
Bank charges	498,470	595,223
Cleaning	4,085,628	2,613,993
Consulting and professional fees	1,136,034	2,853,958
Debt collection	56,565	506,394
Insurance	408,060	342,318
Conferences and seminars	61,064	104,203
Gardening	-	158,565
Motor vehicle expenses	64,230	83,922
Pest control	-	275,368
Placement fees	331,559	117,642
Printing and stationery	490,110	245,041
Security	5,516,858	5,240,612
Software licenses	631,708	843,777
Telephone and fax	638,055	621,442
Travel and accommodation- local	180,695	261,856
Electricity	2,139	517,894
Sewerage and waste disposal	616,715	1,133,194
Water	3,221,061	3,489,557
Refuse	1,952,808	1,775,833
Bursaries	58,340	138,974
Catering and Refreshments	101,010	128,247
Other expenses	1,146,265	900,266
	22,684,667	**24,586,982**

27. Taxation

Major components of the tax expense

Deferred Tax	(1,234,096)	15,778,311
Local income tax - current period	15,412,199	23,080,696
	14,178,103	**38,859,007**

28. Taxation paid

Normal Income Tax paid - Current year	15,393,741	-
Normal Income Tax paid - Prior year	24,621,716	19,368,004
Penalties and interest paid - Current year	3,345,855	4,250,309
Penalties and interest reversals received - Prior year	(3,257,698)	-
	40,103,614	**23,618,313**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

29. Cash generated from operations

Surplus	42,470,556	37,332,796
Adjustments for:		
Depreciation and amortisation	5,389,264	4,927,961
Loss on sale of assets and liabilities	355,386	31,996
Debt impairment	10,081,910	6,254,800
Movements in operating lease assets and accruals	(55,662)	10,371
Movement in provisions	(1,095,386)	(52,671)
Movement in deferred tax	(1,234,096)	15,778,312
Movement in tax (securities transfer duty payable)	(31,965,316)	17,948,275
Capital Grants received in kind	-	(67,084,729)
Impairment on loans	84,000	-
Changes in working capital:		
Receivables from exchange transactions	(2,437,924)	94,755
Consumer debtors	(16,073,538)	(7,090,177)
Trade and other payables from exchange transactions	3,576,919	111,188
Unspent conditional grants and receipts	-	8,179,352
	9,096,113	**16,442,229**

30. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	790,786	827,433
Amount paid - current year	(790,786)	(827,433)
	-	-

VAT

VAT receivable	35,608	812,724

Supply chain management regulations

Paragraph 36 (1) (a) of the Municipal Supply Chain Management Regulations states that a Supply Chain Management policy may in certain circumstances, allow the accounting officer to dispense with the official procurement processes established by the policy and to procure any required goods or services through any convenient process. The regulations further states that the Accounting Officer must record the reasons for any deviations and report them to the next meeting of the board and include as a note to the annual financial statements.

During the year expenditure of R283 813 was incurred for the refurbishment of burnt offices at the EHC office premises. The cleaning and refurbishment services were urgently required due to health hazards caused by the fire. The reasons for the deviations were documented and reported to the board.

Incident		
Appointment of legal council for labour court matter	-	370,000
Appointment services to clean and refurbish EHC burnt office	283,813	-
	283,813	**370,000**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

31. Fruitless and wasteful expenditure

Opening balance	8,260,960	5,100,210
Interest and penalties on underpayment of second provisional tax payment	-	3,160,750
Over provision of 2018 interest and penalties	(658,372)	-
Interest on late payment of 2019 first provisional tax	16,961	-
2018 interest and penalties recovered in current year	(2,462,172)	-
2017 interest and penalties recovered in current year	(3,257,698)	-
	1,899,679	**8,260,960**

Interest and penalties on the underpayment of provisional tax payment relates to a change in the treatment of grants effective 01 January 2017, whereby all capital grants are taxable. The Chris Hani and Delville Ext 9 properties were transferred to EHC in April 2017 and October 2017 respectively, which required EHC to account for tax on the grant as per the new tax regulation. An amount of R3, 257, 698 was recovered in respect of 2016/17 SARS penalties, while R2, 462, 172 was recovered for 2017/18 financial year. The recoverable amount in respect of 2017/18 has been accounted for as accrued income as the receipt of the cash is pending the final tax return submission. MPAC conducted an investigation into the prior year fruitless and wasteful expenditure. The report was issued and is pending consideration from the committee. The recommendations of the report will be actioned accordingly.

Interest and penalty of R790 798 were charged and paid to SARS in the current year, due to late payment of the 2019 first provisional tax. The entity requested SARS to reverse interest and penalties. SARS reversed R773 837.

32. Irregular expenditure

Opening balance	12,615,164	7,243,171
Add: Irregular Expenditure - current year	-	1,388,875
Add: Irregular Expenditure - current year relating to prior periods	-	3,983,118
	12,615,164	**12,615,164**

Analysis of expenditure awaiting condonation per age classification

Current year	-	5,371,993
Prior years	12,615,164	7,243,171
	12,615,164	**12,615,164**

An amount of R1, 388, 875 consists of R888 372 for contracts awarded based on points given for criteria that is different from those stipulated in the original invitation as required by SCM regulation 21(b) and 28 (1)(a) and services to the value of R500 502 procured without obtaining three quotations.The reason for not obtaining three quotation was not approved by the Chief Financial Officer as required by the SCM regulation 17(a) and (c).

Awards of R 3,983,118 was made to a supplier without following the competitive bidding process.

A forensic investigation was conducted on irregular expenditure relating to the tender for security services reported in the prior years as included in the 2018 opening balances. Consequently the Chief Executive Officer has resigned during the year under review.

MPAC conducted an investigation into the prior year irregular expenditure. The report was issued and is pending consideration from the committee. The recommendations of the report will be actioned accordingly.

No irregular expenditure was noted in the current year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

33. Related parties

Relationships	
Directors	Refer to directors' report note
Controlling municipality	City of Ekurhuleni
Other members of the group	Brackpan Bus Company (SOC) Limited Lethabong Housing Institute (SOC) NPC (in liquidation) East Rand Water Care Company (SOC) NPC
Members of key management	Dr M Pillay (Chief Executive Officer) -resigned 31 October 2018 B Molefe (Chief Executive Officer) D Dlamini (Chief Financial Officer) -Resigned 31 December 2018 Adv K Sebola (Company Secretary) D Pertab (Chief Financial Officer)

Refer to note 22 for remuneration of members of key management.

The entity received services in kind from its parent municipality. The services were:

- Internal audit functions

- Audit Committee functions

- Information Technology services

Related party balances

	2019	2018
Loan accounts - Owing (to) by related parties		
Lethabong Housing Institute (SOC) Limited (in liquidation)	336,000	420,000
Amounts included in Trade receivable (Trade Payable) regarding related parties		
City of Ekurhuleni	7,935,347	92,673
City of Ekurhuleni	(258,065)	(1,194,876)

A net amount of R513 093 relates to municipal rates accounts held with the City of Ekurhuleni. The entity has requested the municipality for a refund as at 30 June 2019. In addition an amount of R3, 161,000 relating to capital grant is receivable.

R4, 003,189 for the Clayville development project included in the R7, 935,347 million is receivable from the City of Ekurhuleni which is not accounted in the trade and other receivables as EHC is acting as an implementation agent for the project

Related party transactions

	2019	2018
Services provided by related parties		
City of Ekurhuleni	6,423,360	7,228,902
Grant in kind received-transfer of building		
City of Ekurhuleni	-	(67,084,729)
Grants received from related parties		
City of Ekurhuleni	(70,317,776)	(33,862,183)
Other grants received		
City of Ekurhuleni	(4,803,827)	-

Other grants received relates to funds received for Clayville development project that EHC is acting as the implementation agent.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Risk management

Liquidity risk

Liquidity risk is the risk that the entity will not be able to settle its short term obligation when they fall due.

The entity manages its liquidity risk as follows:

1. Performing detail cash forecast, which takes into account short term obligations that will fall due.

2. Continuous review of future commitments and available credit facility.

The table below analyses the entity’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	10,908,106	9,954,601	-	-
Trade and other payables	8,679,589	-	-	-
Provisions	1,898,885	-	-	-
Tenants deposits	5,241,915	-	-	-

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Conditional grant	-	20,862,707	-	-
Trade and other payables	5,155,331	-	-	-
Provisions	2,994,272	-	-	-
Tenants deposits	5,000,910	-	-	-

Interest rate risk

Interest rate risk is the risk that the value of financial instrument will change as a result of changes in interest rates.

The entity is not exposed to interest rate risk because it does not invest in long term interest bearing instruments such as bonds.

Credit risk

Consumer debtors - the risk of default by tenants on their rental obligations. The entity manages its credit risk for consumer debtors through the use of ITC and affordability reports.

Bank balances - the entity is exposed to credit risk as a result of cash deposited with banks. The entity manages its credit risk exposure to banks by investing in reputable major banks with good credit rating. At year end, the entity's bank deposits were with ABSA bank, which is rated by Moodys rating agency.

Credit quality of consumer debtors

Credit quality is the ability of consumer debtors to pay their obligations when they fall due. This is determined using ITC and affordability reports. The ITC report categorises the debtors into the following:

(i) Category A - the risk of defaulting is low and the probability of defaulting is also low,

(ii) Category B and C - the risk of defaulting is neutral and the probality of defaulting is also neutral.

(iii) Category D,E and F - the risk of defaulting is high and probability of them defaulting is also high.

The entity selects tenants who falls into category A, B, and C, in order to manage its credit risk.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Financial instruments disclosure

Categories of financial instruments

30 June 2019

Financial assets

	At amortised cost
Loans to economic entities	336,000
Trade and other receivables from exchange transactions	4,741,556
Consumer debtors	7,620,115
Cash and cash equivalents	43,538,005
	56,235,676

Financial liabilities

	At amortised cost
Current tax payable	5,002,730
Trade and other payables from exchange transactions	8,666,260
Tenants deposits	5,241,915
Unspent conditional grant	20,862,707
Deferred operating lease	13,329
	39,786,941

30 June 2018

Financial assets

	At amortised cost
Loans to economic entities	420,000
Trade and other receivables from exchange transactions	1,523,517
Consumer debtors	1,628,487
Cash and cash equivalents	35,540,172
	39,112,176

Financial liabilities

	At amortised cost
Current tax payable	36,968,047
Trade and other payables from exchange transactions	5,086,340
Tenants deposits	5,000,910
Unspent conditional grant	20,862,707
Deferred operating lease	68,991
	67,986,995

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

36. Operating lease

The entity rents out housing units in accordance with Social Housing Regulatory Authority guidelines. The operating lease agreements are entered into for a period of 12 months, subject to a renewal there after. The rental increase is effective on the 1 July each year, subject to the approval of the board and guidance of SHRA. Based on the contingency of the renewal and the increase, the entity has not recognised revenue on a straight line basis over the lease term as the actual invoicing is representative of the time pattern in which the benefit is derived from the leased asset.

37. Budget differences

Reconciliation of Original Budget- Total Expenditure

The difference between the original budget as approved by the City of Ekurhuleni and the original budget disclosed in the Statement of Comparison of Budget and Actuals is due to the reallocation of budget between line items during the year. The comparison in the table below indicates the reallocations made between the line items and within the approved budget parameters:

Budget line item	Original budget	Entity's reallocation adjustments	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Original budget - reallocated
Employee costs	23,248,811	-	-	23,248,811
Non-Executive Directors' Fees	3,081,600	-	-	3,081,600
Contracted Services	9,602,159	6,085,665	4,045,515	19,733,339
Operational Costs	20,313,610	(6,683,678)	-	13,629,932
Interest	28,620	-	-	28,620
Operating lease	1,023,535	260,619	-	1,284,154
Contribution for bad debts	6,261,420	337,394	-	6,598,814
Depreciation and Amortisation	4,571,000	-	-	4,571,000
	68,130,755	**-**	**4,045,515**	**72,176,270**

38. Prior period errors

Deferred tax liability has been restated due to calculation error in the 2017 financial year. The 2017 deferred tax liability is now adjusted by R4, 160,903. The calculation error resulted in a further adjustment of the 2018 movement by R776 301.

The correction of the error(s) results in adjustments as follows:

Statement of financial position	Balance as previously reported	Restated balance	Adjustment
Deferred tax (30 June 2017)	(31,269,194)	(27,108,251)	4,160,943
Accumulated surplus (30 June 2017)	(83,208,745)	(87,369,688)	(4,160,943)
Deferred tax (30 June 2018 as restated)	(43,662,863)	(42,886,562)	776,301
	(158,140,802)	**(157,364,501)**	**776,301**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Prior period errors (continued)

Statement of Financial Performance	Balance as previously reported	Restated balance	Adjustment
Taxation	39,635,308	38,859,007	(776,301)

Other receipts in the cash flow from operating activities previously included Interest charged on overdue accounts. This has now being disclosed in the cash flow statement as interest income due to its nature.

Finance costs in the cash flow from operating activities previously included provision for interest on tenants' deposits. This has now being adjusted against suppliers.

The correction of the error(s) results in adjustments as follows:

Cash Flow Statement	**Balance as previously reported**	**Restated balance**	**Adjustment**
Interest income	2,174,760	3,363,127	(1,188,367)
Other receipts	6,220,748	5,032,381	1,188,367
Finance costs	(107,514)	(206)	(107,308)
Suppliers	(29,568,725)	(29,676,033)	107,308
	(21,280,731)	**(21,280,731)**	**-**

39. Commitments

	2019	2018
Already contracted for but not provided for		
• Property, plant and equipment	2,367,400	-
Total capital commitments		
Already contracted for but not provided for	2,367,400	-

As at 30 June 2019, commitments relating to the provision of water meters to the value of R3, 161, 000 was approved and contracted. The service to the value of R 793 600 was rendered and paid for as at 30 June 2019. The balance of the contracted amount is R2,367,400.